

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Traverse City Light & Power	County Grand Traverse
Fiscal Year End June 30, 2006	Opinion Date November 1, 2006	Date Audit Report Submitted to State December 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

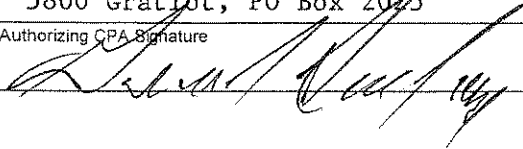
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989-799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Gerald J. Desloover, CPA	Zip 48605
		License Number 1101007126	

# **Traverse City Light and Power**

**(A Component Unit of the  
City of Traverse City, Michigan)**

## **Financial Statements**

**For the Fiscal Year Ended  
June 30, 2006**

# **TRAVERSE CITY LIGHT AND POWER**

**(A Component Unit of the City of Traverse City, Michigan)**

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

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## INDEPENDENT AUDITORS' REPORT

November 1, 2006

Honorable Chairman and Members  
Light and Power Board  
Traverse City, Michigan

We have audited the accompanying financial statements of **Traverse City Light and Power** (a component unit of the City of Traverse City, Michigan) (the "Department") as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Traverse City Light and Power** at June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of **Traverse City Light and Power**. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly presented in all material respects in relation to the financial statements taken as a whole.

The management's discussion and analysis, schedule of capital assets and depreciation, and schedule of revenues and expenditures – budget and actual information on pages 2 through 6 and 24 through 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# TRAVERSE CITY LIGHT AND POWER

## Management's Discussion and Analysis

As management of the *Traverse City Light and Power* (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

1. The Department completed the demolition of the Bayside power plant.
2. The Department began the process with the County and City, owners of the dams and the regulatory agencies, State of Michigan's Department of Environmental Quality and Federal Energy Regulatory Commission to decommission the Brown Bridge, Boardman and Sabin dams, which were used to generate electricity for Light and Power's customers.
3. The Department experienced a significant increase in purchased power expenses during the year. These expenses were primarily due to the impact of deregulation changes and rising fuel costs.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. The Department's basic financial statements comprise three components:

1. Fund financial statements
2. Notes to the financial statements, and
3. Supplementary information.

### Fund Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Department is accounted for in a proprietary fund (Enterprise Fund).

*Enterprise funds* distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing electrical services to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Balance Sheets presents information on all of the Department's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Assets present information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Department is principally supported by charges for providing electrical services to customers of Traverse City. The financial statements include only the Department itself. The Department has no legally separate component units for which the Department is financially accountable.

The Department adopts an annual appropriated budget for its fund. A budgetary comparison schedule has been provided herein to demonstrate compliance with that budget.

The Department does not maintain fiduciary funds.

The financial statements can be found on pages 7 through 9 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Department's financial statements. The notes to the financial statements can be found on pages 10 through 20 of this report.

**Other information.** In addition to the financial statements and accompanying notes, this report also presents certain *supplementary information*. Along with this required management discussion and analysis, other supplementary information can be found on pages 21 through 27 of this report.

### **The Department's Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by approximately \$55,000,000 at the close of the most recent fiscal year, June 30, 2006.

By far, the largest portion of net assets for the Department is its investment in capital assets (primarily land, construction in progress, building, distribution system and equipment), less any related debt that is still outstanding. The Department uses these capital assets to provide services to customers. Although the Department investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The bulk of the remaining portion of the Department net assets is unrestricted and available for Department activity.

### Traverse City Light and Power's Net Assets

	<b>June 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Business-type Activities</b>		
Current and other assets	\$ 21,288,702	\$ 22,294,814
Capital assets	<u>36,661,055</u>	<u>34,822,767</u>
Total assets	57,949,757	57,117,581
Long-term liabilities outstanding	401,986	338,948
Other liabilities	<u>2,613,868</u>	<u>3,580,193</u>
Total liabilities	3,015,854	3,919,141
Net assets		
Invested in capital assets, net of unrelated debt	35,775,206	34,512,767
Restricted assets – debt service	-	5,346
Unrestricted	<u>19,158,697</u>	<u>18,680,327</u>
<b>Total net assets</b>	<b><u><u>\$ 54,933,903</u></u></b>	<b><u><u>\$ 53,198,440</u></u></b>

### Traverse City Light and Power's Changes in Net Assets

	<b>June 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Business-type Activities</b>		
Operating revenue	\$ 25,706,961	\$ 23,368,048
Operating expenses	(26,259,558)	(22,355,298)
Nonoperating revenue expenses – net	<u>1,893,345</u>	<u>640,798</u>
Increase in net assets before special items	1,340,748	1,653,548
Special items - net	<u>394,715</u>	<u>(1,029,416)</u>
Increase in net assets	1,735,463	624,132
Net assets – beginning of year – as restated	<u>53,198,440</u>	<u>52,574,308</u>
<b>Net assets – end of year</b>	<b><u><u>\$ 54,933,903</u></u></b>	<b><u><u>\$ 53,198,440</u></u></b>



## Business-type activities

The overall financial position of the Department remained strong in 2005 - 2006. The Department continued to monitor its rate structure and evaluate its expenses in view of the new deregulation market. The Department has no outstanding long-term debt obligations except for the commitment through their power supply contract with MPPA to reimburse MPPA for debt service costs relating to the Campbell, Belle River and Combustion Turbine generation plants.

## Revenue

In 2005 – 2006, revenue increased due to an increase in the number of customers and a restructuring of our rate classes. We also recorded a transfer of funds from the MPPA resulting from sale of emission credits at Belle River and Campbell Generation Plants.

## Expenses

In fiscal 2006, operating expenses increased approximately \$3,900,000 from fiscal 2005. The primary increase was as a result of the increased cost associated with purchased power and the deregulating market.

## Capital Asset and Debt Administration

### Traverse City Light and Power Capital Assets (net of depreciation)

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Land	\$ 821,051	\$ 843,173
Construction in progress	1,093,681	3,760,028
Buildings and improvements	3,700,780	3,690,554
Equipment and distribution system	47,376,127	42,259,695
Accumulated depreciation	<u>(17,216,433)</u>	<u>(15,730,683)</u>
<b>Total</b>	<b><u>\$ 35,775,206</u></b>	<b><u>\$ 34,822,767</u></b>

Additional information on the Department's capital assets can be found in Note 5 on pages 15 through 16 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The economic climate for 2006-07 will continue to be a challenge due to the deregulating market and conditions that will evolve out of the Department's control. The MPPA trust fund money received at the end of fiscal 2005 had been set aside and earmarked for special projects including rate stabilization. The majority of those funds were utilized over the fiscal year for that purpose. A 2.5% rate increase was effective October 1, 2006 and was designed to offset the rising purchased power costs experienced over the last eighteen months.

Our economic outlook continues to be strong, our 2006-07 budget reflects an operating gain and we maintain the ability to weather any unforeseen financial aberrations that may arise.

## **Requests for Information**

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Richard Smith, Executive Director, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## BALANCE SHEETS

ASSETS	June 30,	
	2006	2005
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,662,422	\$ 4,966,882
Investments	12,148,028	11,911,707
Receivables		
Customer, less allowances of \$63,212 and \$54,532		
respectively, for uncollectible accounts	3,213,054	3,196,467
Accrued interest	59,050	41,808
Taxes	3,282	-
Other	366,244	79,326
Inventories	822,639	776,322
Prepaid expenses	13,983	13,263
<b>Total current assets</b>	<b>21,288,702</b>	<b>20,985,775</b>
<b>Restricted assets</b> , including cash and cash equivalents of \$- and \$323,096, respectively	<b>-</b>	<b>323,096</b>
<b>Long-term assets</b>		
Long-term advances - due from primary government	885,849	951,907
Deferred charges	-	34,036
Land	821,051	843,173
Construction in progress	1,093,681	3,760,028
Capital assets, net	33,860,474	30,219,566
<b>Total long-term assets</b>	<b>36,661,055</b>	<b>35,808,710</b>
<b>Total assets</b>	<b>\$ 57,949,757</b>	<b>\$ 57,117,581</b>

The accompanying notes are an integral part of these financial statements.

	June 30,	
	2006	2005
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,170,312	\$ 1,768,617
Accrued expenses and other liabilities	81,983	232,965
Customer deposits	134,525	142,927
Due to primary government	227,048	198,373
Unearned revenue	-	919,561
<b>Total current liabilities</b>	<b>2,613,868</b>	<b>3,262,443</b>
<b>Liabilities payable from restricted assets</b>		
Current portion of long-term debt	-	310,000
Accrued interest payable	-	7,750
<b>Total liabilities payable from restricted assets</b>	<b>-</b>	<b>317,750</b>
<b>Long-term liabilities</b>		
Compensated absences	401,986	338,948
<b>Total liabilities</b>	<b>3,015,854</b>	<b>3,919,141</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	35,775,206	34,512,767
Restricted assets - debt service	-	5,346
Unrestricted	19,158,697	18,680,327
<b>Total net assets</b>	<b>54,933,903</b>	<b>53,198,440</b>
<b>Total liabilities and net assets</b>	<b>\$ 57,949,757</b>	<b>\$ 57,117,581</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2006	2005
<b>Operating revenues</b>		
Charges for services	\$ 25,466,677	\$ 23,130,646
Other	240,284	237,402
<b>Total operating revenues</b>	<b>25,706,961</b>	<b>23,368,048</b>
<b>Operating expenses</b>		
Personnel	3,631,529	3,467,134
Contractual services	686,716	626,918
Repairs and maintenance	87,054	166,993
Office supplies, insurance and other	292,220	272,500
Operating supplies	18,443,152	14,952,051
Rentals	170,142	181,459
Utilities	91,912	98,976
City fee	1,337,048	1,158,373
Depreciation and amortization	1,519,785	1,430,894
<b>Total operating expenses</b>	<b>26,259,558</b>	<b>22,355,298</b>
<b>Operating (loss) income</b>	<b>(552,597)</b>	<b>1,012,750</b>
<b>Non-operating revenues (expenses)</b>		
Grant revenue	185,996	-
Rental income	23,152	14,299
MISO income	368,368	-
Reimbursement	1,175,428	1,232,391
Interest income	667,893	531,420
Loss on sale of capital assets	-	(1,121,812)
Change in fair market value of investments	(125,665)	-
Grant expense	(213,029)	-
MPPA working capital	(188,613)	-
Interest expense	(185)	(15,500)
<b>Total non-operating revenues</b>	<b>1,893,345</b>	<b>640,798</b>
<b>Income before special items</b>	<b>1,340,748</b>	<b>1,653,548</b>
<b>Special items</b>		
Sale of emission allowances	585,107	-
Plant decommissioning	(190,392)	(1,029,416)
<b>Total special items</b>	<b>394,715</b>	<b>(1,029,416)</b>
Change in net assets	1,735,463	624,132
Net assets, beginning of year, as restated	53,198,440	52,574,308
<b>Net assets, end of year</b>	<b>\$ 54,933,903</b>	<b>\$ 53,198,440</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2006	2005
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 24,422,954	\$ 23,476,881
Cash payments to employees	(3,661,814)	(3,446,468)
Cash payments to suppliers for goods and service:	(19,606,930)	(17,302,073)
Cash payments for payment in lieu of tax	(1,308,373)	(1,156,695)
<b>Net cash (used in) provided by operating activities</b>	<b>(154,163)</b>	<b>1,571,645</b>
<b>Cash flows from non-capital financing activities:</b>		
Long-term advance to primary government	66,058	1,666,923
Cash payment to MPPA for working capital	(188,613)	-
Customer deposits	(8,401)	-
Rental income	23,152	14,299
Proceeds from sale of emission allowance:	585,107	-
Reimbursements	1,175,428	1,232,391
<b>Net cash provided by non-capital financing activities</b>	<b>1,652,731</b>	<b>2,913,613</b>
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets	(2,438,189)	(3,752,295)
MISO income	368,368	-
Cash received from grantors	185,996	-
Cash payment for grant expenditure:	(213,029)	-
Note principal payments:	(310,000)	(295,000)
Note interest payments	(7,935)	(22,654)
Proceeds from sale of capital assets	-	444,820
<b>Net cash used in capital and related financing activities</b>	<b>(2,414,789)</b>	<b>(3,625,129)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(361,986)	(766,542)
Investment income	650,651	492,947
<b>Net cash provided by (used in) investing activities</b>	<b>288,665</b>	<b>(273,595)</b>
Net (decrease) increase in cash and cash equivalents	(627,556)	586,534
Cash and cash equivalents, beginning of year	5,289,978	4,703,444
<b>Cash and cash equivalents, end of year</b>	<b>\$ 4,662,422</b>	<b>\$ 5,289,978</b>
<b>Balance Sheet Reconciliation:</b>		
Cash and cash equivalents	\$ 4,662,422	\$ 4,966,882
Restricted assets-cash equivalents	-	323,096
	<b>\$ 4,662,422</b>	<b>\$ 5,289,978</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2006	2005
<b>Cash flows from operating activities:</b>		
Operating (loss) income	\$ (552,597)	\$ 1,012,750
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,519,785	1,430,894
Plant decommissioning	(190,392)	(1,029,416)
Changes in operating assets and liabilities which (used) provided cash:		
Receivables	(306,787)	(810,728)
Inventories	(46,317)	(76,172)
Prepaid expenses	(720)	3,044
Accounts payable	401,695	99,368
Accrued expenses and other liabilities	(150,982)	23,021
Due to other governments	28,675	1,678
Unearned revenue	(919,561)	919,561
Compensated absences	63,038	(2,355)
<b>Net cash (used in) provided by operating activities</b>	<b>\$ (154,163)</b>	<b>\$ 1,571,645</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF ACCOUNTING POLICIES

#### **Organization**

Under provisions of the City of Traverse City (the “City”) Charter, the Light and Power Board (the “Board”) was created having jurisdiction and control of *Traverse City Light and Power* (the “Department”). The Board consists of seven members (two of which are City commissioners) and one ex-officio member (the City Manager). The Department’s annual budget is approved by the City Commission. The Department is required to pay 5% of its gross revenue annually to the City’s General Fund for payment in lieu of taxes. For fiscal 2006 and 2005, transfers of \$1,337,048 and \$1,158,373, respectively, were made to the City.

The Department is a discrete component unit of the City because the City appoints the Department’s Board of Directors, it has the ability to significantly influence the Department’s operations and it is financially accountable for the Department as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Department is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

#### **Basis of Accounting**

The Department uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Department considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

#### **Investments**

Investments are stated at fair value. For fair value, securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The change in fair value of the investments from the beginning of the year to the end of the year is reported in the “Non-operating revenues (expenses)” section of the Statements of Revenues, Expenses and Changes in Net Assets”.



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### **Inventories**

Inventories are valued at average cost. Expenditures for maintenance and office supplies are charged to expenses upon purchase.

### **Deferred Charges**

Deferred charges represent costs incurred in refinancing bonds in 1993 and are being amortized over the life of the bond issue. As of June 30, 2006 the bonds are retired.

### **Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated lives of the related assets as follows:

	<u>Years</u>
Buildings and structures	20-50
Power production equipment and distribution system	5-50

### **Compensated Absences**

Compensated absences consist of accumulated unpaid vacation, short-term leave and sick pay. Accumulated unpaid vacation and short-term leave are accrued when earned and sick pay is accrued up to a maximum when it is probable that the benefit will be paid to the employee, in accordance with Governmental Accounting Standards Board Statement No. 16 - *Accounting for Compensated Absences*.

### **Operating Revenue versus Nonoperating Revenue**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department, are charges to customers for sales and services. Operating expenses for the Department include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **GASB 20**

# **TRAVERSE CITY LIGHT AND POWER**

**(A Component Unit of the City of Traverse City, Michigan)**

## **NOTES TO FINANCIAL STATEMENTS**

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance.

### **Budgetary Information**

The Department follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Department submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Department's funds. The budget is then adopted by the Department's Board.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

In addition, the City Treasurer's office performs the accounting function on behalf of Light and Power. This includes utility bill processing, other accounts receivable invoicing, processing accounts payable and payroll, maintaining all general ledgers and subsidiary ledgers, and reconciling them on a monthly basis.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### 2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, investments and restricted assets at June 30, 2006 and 2005 are composed of the following:

<u>June 30, 2006</u>	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Restricted Assets</u>	<u>Totals</u>
Deposits	\$ 4,662,022	\$ 3,656,127	\$ -	\$ 8,318,149
Investments	-	8,491,901	-	8,491,901
Petty cash	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
<b>Total</b>	<b><u>\$ 4,662,422</u></b>	<b><u>\$12,148,028</u></b>	<b><u>\$ -</u></b>	<b><u>\$16,810,450</u></b>

<u>June 30, 2005</u>	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Restricted Assets</u>	<u>Totals</u>
Deposits	\$ 4,762,046	\$ 2,502,596	\$ 323,096	\$ 7,587,738
Investments	204,436	9,409,111	-	9,613,547
Petty cash	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
<b>Total</b>	<b><u>\$ 4,966,882</u></b>	<b><u>\$ 11,911,707</u></b>	<b><u>\$ 323,096</u></b>	<b><u>\$17,201,685</u></b>

Deposits consist of various interest bearing cash accounts and certificates of deposit, held by the City Treasurer. The insured and uninsured bank balances for the Department deposits are not available as these deposits are held in pools with other City funds.

The Department is authorized by Michigan Public Act 196 of 1998 and Public Act 20 of 1943 to invest surplus monies in U.S. bonds and notes, certain commercial paper, mutual funds and investment pools that are composed of authorized investment vehicles.

The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2006, the Department had the following investments.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal home loan bond	02/20/2009	\$ 198,562	AAA
Federal home loan bond	04/28/2008	199,376	AAA
Federal home loan bond	05/21/2007	244,532	AAA
Federal home loan bond	12/29/2006	295,407	AAA
Federal home loan bond	05/16/2008	199,312	AAA
Federal home loan bond	08/08/2007	297,282	AAA
Federal home loan bond	11/17/2006	298,314	AAA
US treasury note	08/15/2008	673,533	AAA
US treasury note	09/15/2008	479,100	AAA
US treasury note	11/15/2006	495,175	AAA
US treasury note	09/15/2008	95,820	AAA
US treasury note	05/31/2006	994,410	AAA
US treasury note	05/15/2007	981,640	AAA
US treasury note	06/15/2009	969,260	AAA
US treasury note	05/15/2008	974,730	AAA
US treasury note	06/30/2006	992,340	AAA
US treasury note	04/15/2009	94,853	AAA
Investment sweep	14 days	5,551	N/A
MBIA Pool	N/A	<u>2,704</u>	AAA
		<b><u>\$ 8,491,901</u></b>	

As of June 30, 2005, the Department had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal home loan bond	02/20/2009	\$ 199,500	AAA
Federal home loan bond	05/21/2007	246,173	AAA
Federal home loan bond	12/29/2006	293,814	AAA
Federal home loan bond	05/12/2009	199,188	AAA
Federal home loan bond	08/08/2007	299,718	AAA
Federal home loan bond	11/17/2006	298,314	AAA
US treasury note	08/15/2008	691,278	AAA
US treasury note	09/15/2008	491,525	AAA
US treasury note	11/15/2006	493,420	AAA
<b><u>Investment</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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US treasury note	09/15/2008	98,305	AAA
US treasury note	05/31/2006	990,740	AAA
US treasury note	05/15/2007	990,550	AAA
US treasury note	06/15/2009	1,010,780	AAA
US treasury note	05/15/2008	1,002,190	AAA
US treasury note	06/30/2006	992,300	AAA
US treasury note	04/15/2009	97,996	AAA
US treasury note	05/15/2007	1,013,320	AAA
Investment sweep	N/A	<u>204,436</u>	N/A

**\$ 9,613,547**

### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Department's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The Department's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. State law does not require and the Department does not have a policy for deposit custodial credit risk. The insured and uninsured bank balances for the Department deposits are not available as these deposits are held in pools with other Department funds.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Department does not have a policy for investment custodial credit risk. Of the above \$8,491,901 and \$9,613,547 of investments at June 30, 2006 and 2005 respectively, the Department has a custodial credit risk exposure of

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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\$8,491,901 and \$9,613,547 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified above. The Department's investment policy does not have specific limits in excess of state law on concentration of credit risk. None of the investments held by the Department excluding government obligations explicitly guaranteed by the U.S. government and mutual fund investments, exceed the 5% of the Department's investments.

### 3. INVENTORIES

Inventories in the amount of \$822,639 and \$776,322, at June 30, 2006 and 2005, respectively, consist of materials and supplies.

### 4. RESTRICTED ASSETS

The Department accounts for its operations and maintenance activities, including the funding of reserves, as required by the bond ordinances and other authorities. The Department's restricted assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Bond and interest redemption	<u>\$ -</u>	<u>\$ 323,096</u>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### 5. CAPITAL ASSETS

At June 30, 2006 capital assets consist of the following

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated – land	\$ 843,173	\$ -	\$ (22,122)	\$ 821,051
Construction in progress	<u>3,760,028</u>	<u>1,008,607</u>	<u>(3,674,954)</u>	<u>1,093,681</u>
Total capital assets not being depreciated	<u>4,603,201</u>	<u>1,008,607</u>	<u>(3,697,076)</u>	<u>1,914,732</u>
Capital assets being depreciated				
Buildings and improvements	3,690,554	10,226	-	3,700,780
Equipment and distribution system	<u>42,259,695</u>	<u>5,652,035</u>	<u>(535,603)</u>	<u>47,376,127</u>
Total capital assets being depreciated	<u>45,950,249</u>	<u>5,662,261</u>	<u>(535,603)</u>	<u>51,076,907</u>
Less accumulated depreciation for				
Buildings and improvements	(278,164)	(110,592)	-	(388,756)
Equipment and distribution system	<u>(15,452,519)</u>	<u>(1,789,544)</u>	<u>414,386</u>	<u>(16,827,677)</u>
Total accumulated depreciation	<u>(15,730,683)</u>	<u>(1,900,136)</u>	<u>414,386</u>	<u>(17,216,433)</u>
Total capital assets being depreciated, net	<u>30,219,566</u>	<u>3,762,125</u>	<u>(121,217)</u>	<u>33,860,474</u>
<b>Business-type activities capital assets, net</b>	<u><b>\$34,822,767</b></u>	<u><b>\$4,770,732</b></u>	<u><b>\$(3,818,293)</b></u>	<u><b>\$35,775,206</b></u>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

At June 30, 2005 capital assets consist of the following

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated – land	\$ 843,173	\$ -	\$ -	\$ 843,173
Construction in progress	<u>1,579,283</u>	<u>2,180,745</u>	<u>-</u>	<u>3,760,028</u>
Total capital assets not being depreciated	<u>2,422,456</u>	<u>2,180,745</u>	<u>-</u>	<u>4,603,201</u>
Capital assets being Depreciated				
Buildings and improvements	6,267,530	23,516	(2,600,492)	3,690,554
Equipment and distribution system	<u>48,248,949</u>	<u>1,548,034</u>	<u>(7,537,288)</u>	<u>42,259,695</u>
Total capital assets being depreciated	<u>54,516,479</u>	<u>1,571,550</u>	<u>(10,137,780)</u>	<u>45,950,249</u>
Less accumulated depreciation for				
Buildings and improvements	(2,265,951)	(127,031)	2,114,818	(278,164)
Equipment and distribution system	<u>(20,639,019)</u>	<u>(1,269,829)</u>	<u>6,456,329</u>	<u>(15,452,519)</u>
Total accumulated depreciation	<u>(22,904,970)</u>	<u>(1,396,860)</u>	<u>8,571,147</u>	<u>(15,730,683)</u>
Total capital assets being depreciated, net	<u>31,611,509</u>	<u>174,690</u>	<u>(1,566,633)</u>	<u>30,219,566</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$34,033,965</u></b>	<b><u>\$2,355,435</u></b>	<b><u>\$(1,566,633)</u></b>	<b><u>\$34,822,767</u></b>

The loss on sale of capital assets in the amount of \$1,121,812 at June 30, 2005 results from the decommissioning of the Bayside Plant. The value of the Bayside Plant after depreciation of \$1,571,812 less the proceeds received from the sale of \$450,000 amounted to the loss on sale of \$1,121,812.



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 6. LONG-TERM DEBT

Long-term debt at June 30, 2006 consists of the following

	Electric Utility System Revenue Refunding Bonds	Compensated Absences
Beginning Balance, July 1, 2005	\$ 310,000	\$ 338,948
Additions	-	63,038
Reductions	<u>(310,000)</u>	<u>-</u>
<b>Ending Balance, June 30, 2006</b>	<b><u>\$ -</u></b>	<b><u>\$ 401,986</u></b>
<b>Due within one year</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

Long-term debt at June 30 2005, consists of the following

	Electric Utility System Revenue Refunding Bonds	Compensated Absences
Beginning Balance, July 1, 2004	\$ 605,000	\$ 341,303
Additions	-	-
Reductions	<u>(295,000)</u>	<u>(2,355)</u>
<b>Ending Balance, June 30, 2005</b>	<b><u>\$ 310,000</u></b>	<b><u>\$ 338,948</u></b>
<b>Due within one year</b>	<b><u>\$ 310,000</u></b>	<b><u>\$ -</u></b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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The original issue of Electric Utility System Revenue Refunding Bonds was \$2,420,000 in 1993, with principal due in annual installments of \$20,000 to \$310,000 through July 2006, and interest at 3.10% to 5% payable semi-annually.

In 1986, the Department defeased Series 1984 revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds.

Accordingly, the trust account assets and liability for the defeased bonds are not included in the Department's financial statements. At June 30, 2006 and 2005, \$325,000 and \$625,000, respectively, of the Series 1984 bonds outstanding are considered defeased.

### 7. POWER SUPPLY PURCHASE

The Department along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency ("MPPA"). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Company Campbell 3 plant and an 18.61% undivided interest in the Detroit Edison Company Belle River project, and 75.9% undivided interest in the Combustion Turbine project.

In 1983, the Department entered into a 35 year power supply and project support contract with MPPA. Under the agreement, *Traverse City Light and Power* will purchase 26.35% of the energy generated by the Campbell 3 plant and 4.53% of the energy generated by the Belle River plant.

For the years ended June 30, 2006 and 2005, *Traverse City Light and Power* recognized expenses totaling \$17,778,322 and \$14,318,421, respectively, to purchase power under the terms of the contract. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs.

Under the terms of the contract, the Department must make minimum annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). The estimated total annual debt payments (assuming no early calls or refinancing of existing revenue bonds) are as follows:

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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<b><u>Year Ended December 31</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2007	\$ 2,100,144	\$2,064,643	\$ 4,164,787
2008	2,203,788	1,963,899	4,167,687
2009	2,313,742	1,851,640	4,165,382
2010	2,249,546	1,734,726	3,984,272
2011	2,360,782	1,631,011	3,991,793
2012-2016	11,100,988	6,432,439	17,533,427
2017-2021	8,436,734	3,742,670	12,179,404
2022-2026	7,916,370	1,772,417	9,688,787
2027	<u>1,840,575</u>	<u>96,630</u>	<u>1,937,205</u>
	<b><u>\$40,522,669</u></b>	<b><u>\$21,290,075</u></b>	<b><u>\$61,812,744</u></b>

### 8. SPECIAL ITEM

During the fiscal year ending June 30, 2005, the Department began decommissioning the Bayside Plant and completed the project in 2006. As a result, the Department incurred expenses in the amount of \$190,392 in 2006 and \$1,029,416 in 2005. In addition, the Department received \$585,107 for the sale of emission allowances by Campbell and Belle River Generation Plants. These have been recorded as special items due to the items being under management's control and infrequent in nature.

### 9. RETIREMENT PLAN

Through the City, the Department participates in the Municipal Employees' Retirement System, a defined benefit plan that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed annually. The Department's contributions to the plan during the years ended June 30, 2006 and 2005 were \$496,030 and \$429,017 respectively. The disclosure requirements of the Governmental Accounting Standards Board Statement Number 27 are outlined in the City's Financial Statements.

# **TRAVERSE CITY LIGHT AND POWER**

**(A Component Unit of the City of Traverse City, Michigan)**

## **NOTES TO FINANCIAL STATEMENTS**

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### **10. COMMITMENTS**

In September 1994, the Department purchased \$840,000 of distribution facilities located within the City of Traverse City from Consumers Power Company ("Consumers"). The purchase was made in connection with the settlement of litigation initiated by the Department against Consumers. The purchase was completed under the auspices of the Michigan Public Service Commission and approved by the Department Board. The Department will take possession of these facilities in three stages, one stage remains to occur in September 2014.

#### **Property**

During fiscal 2004, the Department entered into an agreement to lease a parcel of property, Light and Power's coal dock, that requires annual rental payments of \$1. Under the lease agreement, the Department must maintain the property, carry adequate insurance and pay all assessments and property taxes. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contribution revenue and lease expense. This lease expires July 2023.

### **11. CONTINGENCIES**

In the normal course of its activities, the Department becomes a party in various legal actions and claims, some of which are uninsured. While the outcome of these actions and claims is not expected to have a material effect on the financial position of the Department, the Board has established a designation of \$3,224,771 and \$3,014,729 within net assets at June 30, 2006 and 2005, respectively to cover the potential impact of current and future uninsured claims.

### **12. RISK OF LOSS**

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Department is covered for these losses through the City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Self Insurers Fund and commercial health insurance.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 13. PRIOR PERIOD ADJUSTMENT

Beginning net assets was adjusted by \$245,202 to correct an error in capital assets.

### 14. DESIGNATIONS OF NET ASSETS

The following are designations of unrestricted net assets established by the Board

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Maintenance contingencies	\$ 2,867,337	\$ 2,867,337
Bayside decommissioning	-	470,584
Hydro decommissioning	850,000	850,000
Emergencies	99,519	99,519
Uninsured claims	3,224,771	3,014,729
Capital expansion	<u>3,515,000</u>	<u>2,637,750</u>
<b>Total</b>	<b><u>\$ 10,556,627</u></b>	<b><u>\$ 9,939,919</u></b>

### 15. SUBSEQUENT EVENTS

On July 25, 2006 Traverse City Light and Power ("TCLP") entered into an agreement with Traverse City Area Public Schools ("TCAPS") to be the project manager for construction of a fiber optic network. The network will connect TCAPS schools and other buildings and concurrently TCLP will connect several of its locations and facilities. TCLP will own the system and 88 filaments and TCAPS will own 44 filaments. The two parties will share future maintenance costs of the system and filaments.

During the year, TCLP decided to decommission the hyrdo dams and no longer use them as a power source to supply electricity to their customers. After fiscal year end, TCLP took the Sabin, Boardman, and Brown Bridge Hyrdo Dams offline and decommissioned them as required by Federal Energy Regulatory Commission. Operations and maintenance of the Sabin and Boardman Dams will revert back to the County, and the Brown Bridge Dam will revert back to the City, owners of the dams. All reports and documentation have been submitted to FERC, which will allow TCLP to surrender the licenses for operations of these dams.

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# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE NET BALANCES AT JUNE 30, 2005)

	Year Ended June 30, 2006			
	Capital Assets - Cost			
	Balance at June 30, 2005	Additions/ Transfers	Deletions/ Transfers	Balance at June 30, 2006
Land	\$ 597,537	\$ -	\$ 22,122	\$ 575,415
Land - coal dock	245,636	-	-	245,636
<b>Total land</b>	<b>843,173</b>	<b>-</b>	<b>22,122</b>	<b>821,051</b>
Buildings				
Keystone plant	3,191	-	-	3,191
Brown Bridge	2,701	-	-	2,701
Distribution plant	3,663,727	10,226	-	3,673,953
Office structures	20,935	-	-	20,935
<b>Total buildings</b>	<b>3,690,554</b>	<b>10,226</b>	<b>-</b>	<b>3,700,780</b>
Equipment and distribution system				
Sabin Dam	1,442,689	-	-	1,442,689
Boardman Dam	2,630,952	-	-	2,630,952
Union St. Dam	24,010	-	-	24,010
Keystone plant	58,130	-	-	58,130
Keystone interconnect	503,445	-	503,445	-
Brown Bridge	145,372	-	-	145,372
Wind generation unit	763,860	-	-	763,860
Transmission and distribution	35,840,223	5,648,621	-	41,488,844
General	851,014	3,414	32,158	822,270
<b>Total equipment and distribution system</b>	<b>42,259,695</b>	<b>5,652,035</b>	<b>535,603</b>	<b>47,376,127</b>
<b>Construction-in-progress</b>	<b>3,760,028</b>	<b>1,008,607</b>	<b>3,674,954</b>	<b>1,093,681</b>
<b>Total</b>	<b>\$ 50,553,450</b>	<b>\$ 6,670,868</b>	<b>\$ 4,232,679</b>	<b>\$ 52,991,639</b>

Accumulated Depreciation				Capital Assets - Net	
Balance at June 30, 2005	Current Depreciation	Deletions	Balance at June 30, 2006	Balance at June 30, 2006	Balance at June 30, 2005
\$ -	\$ -	\$ -	\$ -	\$ 575,415	\$ 597,537
-	-	-	-	245,636	245,636
-	-	-	-	<b>821,051</b>	<b>843,173</b>
3,191	-		3,191	-	-
2,279	52		2,331	370	422
271,573	109,912		381,485	3,292,468	3,392,154
1,121	628		1,749	19,186	19,814
<b>278,164</b>	<b>110,592</b>	-	<b>388,756</b>	<b>3,312,024</b>	<b>3,412,390</b>
798,891	43,281	-	842,172	600,517	643,798
1,596,795	78,928	-	1,675,723	955,229	1,034,157
15,549	720	-	16,269	7,741	8,461
58,007	12	-	58,019	111	123
414,386	-	414,386	-	-	89,059
101,670	3,709	-	105,379	39,993	43,702
217,702	22,916	-	240,618	523,242	546,158
11,567,835	1,608,460	-	13,176,295	28,312,549	24,272,388
681,684	31,518	-	713,202	109,068	169,330
<b>15,452,519</b>	<b>1,789,544</b>	<b>414,386</b>	<b>16,827,677</b>	<b>30,548,450</b>	<b>26,807,176</b>
-	-	-	-	<b>1,093,681</b>	<b>3,760,028</b>
<b>\$ 15,730,683</b>	<b>\$ 1,900,136</b>	<b>\$ 414,386</b>	<b>\$ 17,216,433</b>	<b>\$ 35,775,206</b>	<b>\$ 34,822,767</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE BALANCES AT JUNE 30, 2005)

	<b>2006 Budget</b>	<b>2006 Actual</b>	<b>Actual Over (Under)</b>	<b>2005 Actual</b>
Operating revenues - sales				
Residential	\$ 4,517,000	\$ 4,359,581	\$ (157,419)	\$ 3,835,711
Commercial	12,911,000	12,516,718	(394,282)	11,638,855
Industrial	8,064,000	8,071,188	7,188	7,168,710
Public authority	264,000	246,735	(17,265)	215,487
Street lighting	182,900	186,713	3,813	185,808
Yard lights	88,500	85,742	(2,758)	86,075
<b>Total operating revenues - sales</b>	<b>26,027,400</b>	<b>25,466,677</b>	<b>(560,723)</b>	<b>23,130,646</b>
Other operating revenues				
Forfeited discounts	50,000	56,205	6,205	49,774
Merchandise and jobbing	70,000	94,449	24,449	81,247
Sale of scrap	10,000	12,569	2,569	54,085
Recovery of bad debts	1,000	629	(371)	627
Miscellaneous	50,000	76,432	26,432	51,669
<b>Total other operating revenues</b>	<b>181,000</b>	<b>240,284</b>	<b>59,284</b>	<b>237,402</b>
Non-operating revenues				
Grant revenue	-	185,996	185,996	-
Rental income	2,000	8,788	6,788	-
Pole rental income	15,000	14,364	(636)	14,299
MISO income	630,000	368,368	(261,632)	-
Reimbursement	175,000	1,175,428	1,000,428	1,232,391
Change in fair market value of investments	-	(125,665)	(125,665)	-
Interest income	510,000	667,893	157,893	531,420
<b>Total non-operating revenues</b>	<b>1,332,000</b>	<b>2,295,172</b>	<b>963,172</b>	<b>1,778,110</b>
<b>Special item</b>				
Sale of emission allowances	1,099,561	585,107	(514,454)	-
<b>Total revenues</b>	<b>28,639,961</b>	<b>28,587,240</b>	<b>(52,721)</b>	<b>25,146,158</b>



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE BALANCES AT JUNE 30, 2005)

	2006 Amended Budget	2006 Actual	Actual Over (Under)	2005 Actual
<b>Generation Expense</b>				
Operating				
Station labor	\$ 277,000	\$ 277,447	\$ 447	\$ 286,734
Payroll taxes and fringes	190,600	136,797	(53,803)	158,005
Campbell No. 3 power	3,890,000	4,191,420	301,420	3,130,284
Belle River No. 1 power	3,300,000	3,219,817	(80,183)	3,207,990
Combustion turbine	3,600,000	3,469,229	(130,771)	3,467,140
Hydro fees	52,000	104,575	52,575	83,473
Purchased power	6,850,000	6,897,856	47,856	4,513,008
Utilities				
Telephone	4,000	8,021	4,021	7,689
Water	-	1,346	1,346	2,559
Coal dock	2,000	1,250	(750)	27,966
Miscellaneous supplies	1,000	6,282	5,282	(6,743)
Professional development	8,000	1,508	(6,492)	3,947
Inventory adjustments	-	-	-	3,076
Total generation operating expenses	18,174,600	18,315,548	140,948	14,885,128

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE BALANCES AT JUNE 30, 2005)

	<b>2006 Amended Budget</b>	<b>2006 Actual</b>	<b>Actual Over (Under)</b>	<b>2005 Actual</b>
<b>Generation Expense (continued)</b>				
Maintenance				
Labor	\$ 187,750	\$ 236,190	\$ 48,440	\$ 325,864
Payroll taxes and fringes	128,800	141,259	12,459	137,497
Structures	-	9	9	188
Coal dock	3,000	4,293	1,293	2,213
Wind generator	12,500	2,284	(10,216)	2,823
Boardman River	6,000	6,044	44	12,761
Brown Bridge	35,000	25,440	(9,560)	19,712
Accessory electrical equipment	5,000	74	(4,926)	163
Auxiliary power plant equipment	63,000	70,427	7,427	54,454
Water pumps - steam plant	-	-	-	5
Small tools	3,000	1,799	(1,201)	3,651
Sabin Dam	16,500	10,261	(6,239)	20,628
Boardman Dam	23,000	20,505	(2,495)	64,396
Elk Rapids Dam	(9,500)	(3,052)	6,448	(19,937)
Equipment rental	31,000	32,450	1,450	32,357
Equipment fuel	6,500	10,353	3,853	8,361
Elevator	-	-	-	3,196
Miscellaneous	13,000	7,207	(5,793)	14,706
Total generation maintenance expense	524,550	565,543	40,993	683,038
<b>Total generation expense</b>	<b>18,699,150</b>	<b>18,881,091</b>	<b>181,941</b>	<b>15,568,166</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED) FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE BALANCES AT JUNE 30, 2005)

	<b>2006 Amended Budget</b>	<b>2006 Actual</b>	<b>Actual Over (Under)</b>	<b>2005 Actual</b>
<b>Distribution Expense</b>				
Operating				
Labor	\$ 1,259,400	\$ 1,251,106	\$ (8,294)	\$ 148,336
Payroll taxes and fringes	120,700	624,404	503,704	92,887
Professional development	170,000	33,106	(136,894)	4,093
Office supplies	5,000	4,155	(845)	3,694
Utilities	48,000	73,758	25,758	52,893
Equipment rental	165,000	63,044	(101,956)	67,075
Equipment fuel	14,500	21,485	6,985	13,926
Miscellaneous	25,500	25,641	141	25,086
Total operating expense	1,808,100	2,096,699	288,599	407,990
Maintenance				
Labor	-	-	-	979,688
Payroll taxes and fringes	455,000	-	(455,000)	503,151
Substation	75,000	97,986	22,986	48,543
Lines	218,000	187,498	(30,502)	188,082
Poles and fixtures	40,000	24,116	(15,884)	15,944
Conductors and devices	4,500	726	(3,774)	2,720
Underground cabling	40,000	36,810	(3,190)	58,082
Transformers and devices	15,000	23,181	8,181	9,352
Services	6,000	773	(5,227)	2,598
Meters	20,000	5,977	(14,023)	17,147
Street lighting	13,000	23,553	10,553	7,931
Equipment rental	125,000	69,702	(55,298)	77,639
Radio equipment	3,000	1,394	(1,606)	1,969
Equipment fuel	15,000	19,182	4,182	14,224
Maintenance - building and grounds	69,000	71,928	2,928	140,476
Small tools	20,000	15,126	(4,874)	20,465
Miscellaneous	29,000	40,218	11,218	37,032
Total maintenance expense	1,147,500	618,170	(529,330)	2,125,043
<b>Total distribution expense</b>	<b>2,955,600</b>	<b>2,714,869</b>	<b>(240,731)</b>	<b>2,533,033</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED) FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE BALANCES AT JUNE 30, 2005)

	<b>2006 Amended Budget</b>	<b>2006 Actual</b>	<b>Actual Over (Under)</b>	<b>2005 Actual</b>
<b>Customer Accounting Expense</b>				
Salaries	\$ 144,900	\$ 210,477	\$ 65,577	\$ 130,436
Meter reading	78,600	91,063	12,463	86,751
Payroll taxes and fringes	85,300	79,918	(5,382)	77,728
Office supplies	2,500	2,508	8	2,161
Postage	30,000	29,595	(405)	26,699
Stationary and printing	12,000	7,215	(4,785)	5,681
Equipment rental	6,000	4,425	(1,575)	4,388
Uncollectible accounts	12,500	29,826	17,326	8,973
Collection expense	1,500	(105)	(1,605)	661
Data processing	40,000	20,555	(19,445)	28,552
Professional development	2,000	448	(1,552)	1,669
Miscellaneous	11,500	17,235	5,735	13,034
<b>Total customer accounting expense</b>	<b>426,800</b>	<b>493,160</b>	<b>66,360</b>	<b>386,733</b>
<b>Public Service Expense</b>				
Public service information	<b>308,800</b>	<b>262,234</b>	<b>(46,566)</b>	<b>215,581</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE BALANCES AT JUNE 30, 2005)

	2006 Amended Budget	2006 Actual	Actual Over (Under)	2005 Actual
<b>General Administration Expense</b>				
Salaries	\$ 403,000	\$ 424,010	\$ 21,010	\$ 393,564
Payroll taxes and fringes	129,400	158,858	29,458	146,493
Professional development	45,000	19,312	(25,688)	42,539
Office supplies	6,500	8,145	1,645	9,561
Fees and dues	40,000	81,128	41,128	55,827
Special services	95,000	106,231	11,231	134,629
Legal fees	62,000	59,811	(2,189)	103,748
Telephone	10,000	7,537	(2,463)	7,869
Rent	2,000	521	(1,479)	-
Miscellaneous	6,000	15,203	9,203	6,307
<b>Total general administration expense</b>	<b>798,900</b>	<b>880,756</b>	<b>81,856</b>	<b>900,537</b>
<b>Other expenses</b>				
Grant expense	40,000	213,029	173,029	-
MPPA working capital	-	188,613	188,613	-
Transmission expense	-	4,997	4,997	-
Insurance - general	165,000	165,618	618	161,981
Loss on sale of capital assets	-	-	-	1,121,812
Depreciation and amortization	1,464,850	1,519,785	54,935	1,430,894
City fee	1,414,000	1,337,048	(76,952)	1,158,373
Interest expense	20,000	185	(19,815)	15,500
<b>Total other expenses</b>	<b>3,103,850</b>	<b>3,429,275</b>	<b>325,425</b>	<b>3,888,560</b>
<b>Special item expense</b>				
Plant decommissioning	200,000	190,392	(9,608)	1,029,416
<b>Total expenses</b>	<b>26,493,100</b>	<b>26,851,777</b>	<b>358,677</b>	<b>24,522,026</b>
<b>Net income (loss)</b>	<b>\$ 2,146,861</b>	<b>\$ 1,735,463</b>	<b>\$ (411,398)</b>	<b>\$ 624,132</b>